Financing of social security benefits in Poland

(Finansowanie ubezpieczenia społecznego w Polsce)

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Abstract – The authors characterised health services financing in Poland between 1945 and 1986. Then, they paid attention to the reformed financing model of insurance benefits after 1986, and then after 1999.

Key words **-** health services financing, Poland.

Streszczenie – Autorzy przedstawili finasowanie świadczeń zdrowotnych w Polsce w latach 1945 – 1986. Następnie zwrócili uwagę na zreformowany model finansowania świadczeń ubezpieczonych po 1986 roku, a później po roku 1999.

Słowa kluczowe – finasowanie świadczeń zdrowotnych, Polska.

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I. SOCIAL BENEFITS FINANCING BETWEEN 1945 AND 1986

Between 1918 and1939, Polish state budget did not include social insurance funds. It was intended to subsidise the insurance system and had the right to use its deposits.

After 1945, the economic situation in Poland changed and the national budget ceased to pay in previously fixed contributions for social security. Then, the shortage of money in the amount of 1 m zlotys occurred. Before long, however, social security funds improved because following 1950, the provisions of the six-year plan started to be implemented and all cash funds were combined. That was the reason why social security finances were joined with the state budget to the effect that social security institutions were financed through state subsidies, but surpluses from social security activities fully flowed in the budget in the form of deposits. Since that moment onwards, social security funds became one of the sources of financing of general and economic goals. As a result, the calculation methods used so far with regard to contributions which provided reserves for the financing of insurance benefits were abandoned. Profits from contributions were transferred for the payment of disability and old-age pensions. From that moment, all benefits were to be granted by the economic potential of the state which was supposed to ensure full employment and production growth.

Due to the fact that since 1951 onwards the finances of social security institutions, like state-budget entities, were incorporated into the state budget, social insurance policies obtained the budgetary status. That was the reason why revenues of the Social Insurance Company became the state revenue, whereas certain amounts of money were allocated for expenses related to social security schemes. If someone did not pay fees, they did not have a right to benefits under social security.

If someone was employed at the company, they acquired the right to benefits. Such a model of social security was valid until 1964 [1,2].

Years 1965-1986 brought the next model of financing social insurance benefits, whose finances on the one hand were covered by the state budget, and on the other – comprised special funds which were "Craftsmen's Security Fund (1965–1977), Social Security Fund of Certain Groups of the Population (1966–1977), Pension Fund (1968–1986), and State Fund of Combatants (1976–1986)"[3].

Between 1965–1970 revenues in the Craftsmen's Social Security Fund largely exceeded expenses. After 1967, the surplus began to dwindle, and from 1971 onwards a financial deficit took over.
When this type of social security was abandoned, the deficit amounted to 110 m zlotys. The condition of the Social Security Fund of Certain Groups in the Population was better as its cash inflows definitely outgrew expenses.

The Pension Fund was established under the Act of January 23, 1968. Its main source of revenue were contributions paid by enterprises in the amount of 8.5% of the contribution calculation basis and pension contributions paid by employees. This contribution constituted 3% of the remuneration for work or other respects and entitled employees to be covered by the laws concerning old-age pension provision. Employers deducted the due amount from the employee's remuneration and submitted it to the Social Insurance Company. Years 1968–1977 were favourable because the Fund's revenues matched expenses. If there were surpluses, they were deposited in the state budget or the National Bank of Poland and bore interest, simultaneously contributing to the growth of revenue of the Pension Fund, which in 1977 took over all receivables and liabilities of the Craftsmen's Social Security Fund and Social Security Fund of Certain Groups in the Population. The matter concerning the return of the loan of 200 m zlotys, which was contracted from the state by the Craftsmen's Social Security Fund, was resolved. Deficits in the Pension Fund occurred between 1978 and 1980. Consequently, in 1981, the contribution was raised from 20% to 25% of the contribution calculation basis. When in 1982 Price Compensations started to be withdrawn, the deficit in the Pension Fund's reserves occurred again, but the state provided a certain amount of cash subsidy. The reserves were created only when the fee was raised by 33% in 1982 and by 43% in 1983.

Between 1968-1986 social security revenues grew thanks to the subsidy from the state budget, which the Fund received so that the Social Insurance Company could cover other benefits [2,4,5].

II. REFORMED MODEL OF SOCIAL BENEFITS FINANCING AFTER 1986

The model of financing social benefits raised dissatisfaction due to the distribution of money which covered various benefits. These funds came from the state budget, special and separate funds. That is the reason why on January 1, 1987 the organisation of social benefits financing was changed.
The premise of this action was to combine state budget funds earmarked for insurance benefits with the Pension Fund's capital. In consequence, there was established the Social Security Fund whose reserves were comprised of state budget subsidy fees, interests on deposits, surpluses and other revenues.
All financial resources were transferred into the Social Security Fund's account. Its scope of activity was expanded as it was in charge of handling all disability and old-age pension benefits, as well as social allowances from the financial angle. Since no contributions were collected for war pensions and benefits for combatants, some benefits were financed by the state budget. The funds for the army and militia were streamed to relevant ministries.

In the new model of financing insurance benefits after 1986 the role of state budget in financing social security was reduced to subsidising Social Security Fund and reimbursing raised payments of benefits within fee-free systems. There were also supplementary subsidies. From 1987, expenses exceeded inflows, which, year by year, only aggravated the financial situation. Just to mention, in 1987 expenses were higher that revenues by 6%, in 1989 by 18%, and in 1989 by 37.8% [1,3,6,7].

III. BENEFITS FINANCED BY SOCIAL SECURITY SYSTEM AFTER THE REFORM IN 1999

The model of financing benefits from social security funds was established under the social security reform which was effective as from January 1, 1999.

The Act of October 13, 1998 on the Social Security System stipulated that "the Social Security Fund is a state special-purpose fund, established in order to execute the tasks related to social security" [3]. The act made certain amendments to the effect that within the Social Security Fund there were set up the funds relating to specific types of insurance benefits, as well as reserve funds and the Demographic Reserve Fund.

The funds which are transferred into the Social Security Company for the Social Security Fund are distributed into various types of funds. "Old-system" old-age pensions and the first-pillar pensions are paid out from these funds. This is the pension fund to which contributions are made in halves by the employee and employer, and applies to persons who are covered by insurance [4,8,9]:

- Employed persons,
- Persons working in cottage industries,
- Members of agricultural productions and farmers' circles,
- Mandataries and co-workers,
- Deputies and senators,
- Sports scholarship laureates,
- Persons who are performing paid work on the basis of a referral to work during the time they are serving the penalty of deprivation of liberty,
- Regular soldiers,
- Police, prison service officers, Border Guard officers and State Protection Office officers".

The financing of contributions for disability and old-age pensions in half by the employee and employer does not apply to persons who run their own business as they pay contributions in full. Nor does it apply to soldiers in the case where their contribution is fully paid in by the relevant minister or persons who receive social allowances, in which case the social welfare centre covers them.

Contributions to pension funds are paid for their employees by relevant headquarters of the Police, Border Guard, State Fire Service, whereas contributions for the persons on maternity or parental leave or those entitled to social allowances are covered by the state budget. Unemployed persons have their contributions financed by the Job Centre from the Labour Fund. If employers fail to submit the half of a contribution for an employee, they are breaching the law. The second group of payments constitutes a disability fund, within which benefits are paid to people unable to work due to poor health and past accidents. From this fund also come training allowances and supplementary allowances to pension for complete orphans, nursing and funeral allowances. Similarly to the pension fund, the disability fund is made up of the employee's and employer's contributions (paid in halves by each). The reform of disability pension system was initiated on September 1, 1998. A person's right to disability pension depends on their capacity for work, and not on the health injury. They usually have no money to provide for themselves. They have to first obtain the right to the benefit, and then its amount is determined.

If a person who is entitled to a disability pension is employed, the benefit will be suspended. Once the amount of disability pension exceeds the retirement pension from two pillars, the amount of the latter will equal the disability pension. Analogically, the same will apply to indexation of disability and retirement pensions [2-4,8].

Another group of payments is a sickness fund designed for the benefits granted to persons temporarily unable to work due to poor health, random events, childbirth or raising of a child.

A work accident fund is established and designed for paying out disability pensions in cases where inability to work results from an accident at workplace or professional disease. From this fund, too, family allowances and one-time compensations are withdrawn.

Cash funds which are deposited in particular funds should cover relevant benefits. They are collected from contributions and resources from the reserve fund. If they are not sufficient, the state budget grants subsidies to pay out these benefits in full and in a timely manner. "The function of reserve funds is to collect financial resources (contributions) which, as of December 31 each year, are deposited on the accounts of disability pension, sickness and work accident funds and which may be used exclusively for the purpose of filling in shortages in these funds". Contributions to work accident fund are made by payers purely from their own resources and their amount depends on the level of possible dangers in a given company.

This fact mobilises employers to maintain good and safe working conditions at their companies. Benefits are paid out from the work accident fund in the case of accidents and professional diseases.

In addition, there was established the Demographic Reserve Fund which is intended to secure old-age pension system in case of financial deficits caused by an unfavourable demographic situation. This fund may be used to fill in shortages in the old-age pension fund resulting only from demographic reasons. The fund is made up of the money which remains on the account of the old-age pension fund every year on December 31. It is reduced by the sum needed for the payment of benefits, which must be made in the first month of the following year.

The Fund of Guaranteed Employee Benefits was established from the contributions made by employers. It is a form of a collateral for employees should their employers fail to submit contributions to the Social Security Company or the company go bankrupt.

Since this is not the employee's fault, contributions are reimbursed by the Fund of Guaranteed Employee Benefits, which is favourable for the state budget [6].

Since October 1, 2006 the terms and procedures for paying contributions to the Fund of Guaranteed Employee Benefits are defined in the act of July 13, 2006 on the protection of employee claims in the event of the insolvency of the employer (Dz. U., par. 158, item 1121, as amended). The act requires contributions to be paid by:

- Entrepreneurs who run their business only in Poland,
- Entrepreneurs who run their business also in other member countries if the EU,
- Foreign bank branches,
- Branches of credit institutions,
- Branches of foreign insurance companies,
- Branches or representative offices of foreign entrepreneurs.

Contributions to the Fund of Guaranteed Employee Benefits are not paid for the employees who turned 55 in case of women, and 60 in case of men. Contributions to this fund are transferred into a separate bank account indicated by the Social Insurance Company.

Under the Act of August 28, 1997 on organisation and functioning of old-age pension funds, open old-age pension funds were established. Reference books describe funds as "mechanisms accumulating compulsory individual savings, whereas the contributions made to them and expected future payments do not hold social security features and do not perform social, but merely economic functions" [3].

However, the article 3.1 of the act of October 13, 1998 on the social security system provides that the functions within social security system are fulfilled by open old-age pension funds under social security, whose financial capital is made up of the contributions made on a compulsory basis by the insured persons. It amounts to 7.3% of contribution calculation basis for an old-age pension insurance. These funds are under management of private institutions which are referred to as General Pension Societies.

Jędrasik-Jankowska provided two methods for financing benefits from social security funds. The first one, called Pay-as-you-go method, is based on the assumption that throughout the year it is necessary to gather such an amount of money that would be enough to cover all-year expenses. Contributions make up collected funds, whereas the fund is of a consumption nature. This system prevails in the base old-age pension systems. The generation of presently working people has the task to ensure money for the persons who currently receive benefits – disability and old-age pensioners. The second method is called a capital-based method. The fund is accumulated over a long period of time through the capitalisation of contributions and deposition of financial reserves. This is the reason why the fund is of investment, or capital, nature. It necessitates depositing funds in such investments which bring defined profits. Insurances earn profits not only from contributions, but also from the return on capital [10-12].

Further to the analysis of the social security system it should be stated that it came into existence as a system financed by capital funds. Nevertheless, over the time, it turned into pay-as-you-go systems. After WWII, the capital approach was abandoned and only at the turn of the 70's and 80's of 20th century was a discussion raised on methods for financing of benefits from social security funds. The conclusion was that the pay-as-you-go method was useless because it was unstable, depended on political horse-trading and did not contribute to the economic growth, as the outflowing money was spent immediately. The method was said to cause people to fail to pay contributions. If enterprises charge a high contribution, then they lower competitiveness of other companies which charge smaller contributions.

Nevertheless, some assets of this method were pointed out, as well, as it is more resistant to economic recession and inflation. It also guarantees protection to insured people in case of work loss. The pay-as-you-go system is operationally inexpensive and may function even in difficult conditions.

Likewise, the capital-based system has good and bad sides. One of its assets is the fact that it brings savings and consequently provides financial resources to whole economy. It operates effectively even in the light of unfavourable demographic trends. However, it also has weak points as its functioning entails high costs and fails in the case of inflation.

Due to the fact that it is difficult to determine which system is better in old-pension system reforms, both types of financing are combined and used together. The pay-as-you-go method applies mostly to base old-age pension systems, whereas the capital-based one – in supplementary systems (compulsory and voluntary). To combine these two systems was one of the assumptions of the reform in 1999 [11,13].

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